

AMENDED IN SENATE MAY 8, 1997

SENATE BILL

No. 1080

Introduced by Senator Calderon

February 28, 1997

An act to amend Sections 15052 and 16956 of, *and to repeal and add Section 16955.5 of*, the Corporations Code, relating to limited liability partnerships.

LEGISLATIVE COUNSEL'S DIGEST

SB 1080, as amended, Calderon. Limited liability partnerships.

The Uniform Partnership Act and the Uniform Partnership Act of 1994 require a registered limited liability partnership or foreign limited liability partnership to maintain and provide for security for claims against it, as specified. With respect to these limited liability partnerships that provide accountancy services for claims based upon acts, errors, or omissions arising out of the practice of public accountancy, the security may be provided through the maintenance of a policy or policies of insurance the maximum amount of which need not exceed \$5,000,000, for claims initially asserted in any one calendar year, less amounts paid in defending, settling, or discharging those claims, or through the maintenance in trust or bank escrow, bank certificates of deposit, United States Treasury obligations, bank letters of credit, or bonds of insurance companies the maximum amount of which need not exceed \$5,000,000, for claims initially asserted in any one calendar year, less amount paid in defending, settling, or discharging those claims. Existing law contains comparable

provisions regarding security with respect to registered limited liability partnerships or foreign limited liability partnership that provide legal services, except that the maximum amount need not exceed \$7,500,000.

This bill would, with respect to the policies of insurance described above, authorize those policies to be issued on a claims made or occurrence basis and would further provide that the impairment or exhaustion of the aggregate limit of liability by amounts paid in connection with the settlement, discharge, or defense of claims would not require the partnership to acquire additional insurance coverage for the policy period. The bill would further provide that these policies of insurance may be subject to a deductible or self-insured retention, as specified.

The bill also would, with respect to security provided through the alternative methods specified above, provide that a partnership remains in compliance with the security provisions notwithstanding the amounts paid ~~in any~~ during a calendar year in defending, settling, or discharging those claims as long as the amount of the security ~~is increased to~~ was a specified amount on the first business day of ~~the next~~ that calendar year. The bill would also deem a partnership to be in compliance with this requirement if the partnership has designated and segregated the necessary funds within 30 days after the time that a claim is initially asserted.

The bill would also revise provisions relating to the election of a limited liability partnership to be subject to the law in effect prior to January 1, 1997, or current law. Among other things, it would provide that the election shall terminate on January 1, 1999, rather than January 1, 1998.

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 15052 of the Corporations Code
- 2 is amended to read:
- 3 15052. (a) At the time of registration pursuant to
- 4 Section 15049, in the case of a registered limited liability
- 5 partnership, and Section 15055, in the case of a foreign



1 limited liability partnership, and at all times during which
2 those partnerships shall transact intrastate business,
3 every registered limited liability partnership and foreign
4 limited liability partnership, as the case may be, shall be
5 required to provide security for claims against it as
6 follows:

7 (1) For claims based upon acts, errors, or omissions
8 arising out of the practice of public accountancy, a
9 registered limited liability partnership or foreign limited
10 liability partnership providing accountancy services shall
11 comply with one, or pursuant to subdivision (b) some
12 combination, of the following:

13 (A) Maintaining a policy or policies of insurance
14 against liability imposed on or against it by law for
15 damages arising out of claims in an amount for each claim
16 of at least one hundred thousand dollars (\$100,000)
17 multiplied by the number of licensed persons rendering
18 professional services ~~in this state~~ on behalf of the
19 partnership; however, the total aggregate limit of liability
20 ~~of under~~ the policy or policies of insurance is not required
21 to exceed five million dollars (\$5,000,000) ~~per calendar~~
22 ~~year. The policy or policies may be issued on a claims~~
23 ~~made or occurrence basis. The impairment or exhaustion~~
24 ~~of the aggregate limit of liability by amounts paid under~~
25 ~~the policy in connection with the settlement, discharge,~~
26 ~~or defense of claims shall not require the partnership to~~
27 ~~acquire additional insurance coverage for the policy~~
28 ~~period to which the impairment or exhaustion applies.~~
29 ~~The policy or policies of insurance may be of a type~~
30 ~~reasonably available in the commercial insurance market~~
31 ~~and may be subject to any terms, conditions, exclusions,~~
32 ~~and endorsements as are typically contained in those~~
33 ~~policies. A policy or policies of insurance maintained~~
34 ~~pursuant to this subparagraph may be subject to a~~
35 ~~deductible or self-insured retention not to exceed 10~~
36 ~~percent of the aggregate limit of liability specified herein.~~
37 ~~However, a deductible or self-insured retention may~~
38 ~~exceed that amount if the partnership maintains funds in~~
39 ~~the manner provided for in subparagraph (B) in the~~
40 ~~amount of the difference between the actual deductible~~

1 ~~or self-insured retention and that amount.~~ in any one
2 designated period, less amounts paid in defending,
3 settling, or discharging claims as set forth in this
4 subparagraph. The policy or policies may be issued on a
5 claims made or occurrence basis, and shall cover (i) in the
6 case of a claims made policy, claims initially asserted in
7 the designated period, and (ii) in the case of an
8 occurrence policy, occurrences during the designated
9 period. For purposes of this subparagraph, “designated
10 period” means a policy year or any other period
11 designated in the policy that is not greater than 12
12 months. The impairment or exhaustion of the aggregate
13 limit of liability by amounts paid under the policy in
14 connection with the settlement, discharge, or defense of
15 claims applicable to a designated period shall not require
16 the partnership to acquire additional insurance coverage
17 for that designated period. The policy or policies of
18 insurance may be in a form reasonably available in the
19 commercial insurance market and may be subject to
20 those terms, conditions, exclusions, and endorsements
21 that are typically contained in those policies. A policy or
22 policies of insurance maintained pursuant to this
23 subparagraph may be subject to a deductible or
24 self-insured retention not to exceed a maximum amount
25 equal to 10 percent of the aggregate limit of liability
26 specified by this subparagraph. However, a deductible or
27 self-insured retention may exceed that maximum amount
28 if the partnership maintains funds in the manner
29 provided for in subparagraph (B) in the amount of the
30 difference between the actual deductible or self-insured
31 retention and that maximum amount, or otherwise
32 obtains a commitment of the insurer issuing the policy to
33 the effect that the insurer will cover the difference.

34 (B) Maintaining in trust or bank escrow, cash, bank
35 certificates of deposit, United States Treasury obligations,
36 bank letters of credit, or bonds of insurance or surety
37 companies as security for payment of liabilities imposed
38 by law for damages arising out of all claims in an amount
39 of at least one hundred thousand dollars (\$100,000)
40 multiplied by the number of licensed persons rendering

1 professional services ~~in this state~~ on behalf of the
 2 partnership; however, the maximum amount of security
 3 is not required to exceed five million dollars (\$5,000,000)
 4 ~~per calendar year~~. The partnership remains in
 5 compliance with this section *during a calendar year*
 6 notwithstanding amounts paid *during that calendar year*
 7 from the accounts, funds, Treasury obligations, letters of
 8 credit, or bonds ~~in any calendar year~~ in defending,
 9 settling, or discharging ~~those claims~~ *claims of the type*
 10 *described in this paragraph*, provided that the amount of
 11 the accounts, funds, Treasury obligations, letters of credit,
 12 or bonds ~~is increased to~~ *was* at least the amount specified
 13 in the preceding sentence as of the first business day of
 14 ~~the next~~ *that* calendar year. Notwithstanding the
 15 pendency of other claims against the partnership, a
 16 *registered* limited liability partnership or foreign limited
 17 liability partnership shall be deemed to be in compliance
 18 with this subparagraph *as to a claim* if within 30 days after
 19 the time that a claim is initially asserted through service
 20 of a summons, complaint, or comparable pleading in a
 21 judicial or administrative proceeding, the partnership has
 22 *provided the required amount of security by* designated
 23 and segregated funds in compliance with the
 24 requirement of this subparagraph.

25 (C) Confirming, pursuant to the procedure in
 26 subdivision (c), that, as of the most recently completed
 27 fiscal year of the partnership, it had a net worth equal to
 28 or exceeding ten million dollars (\$10,000,000).

29 (2) For claims based upon acts, errors, or omissions
 30 arising out of the practice of law, a registered limited
 31 liability partnership or foreign limited liability
 32 partnership providing legal services shall comply with
 33 one, or pursuant to subdivision (b) some combination, of
 34 the following:

35 (A) Each registered limited liability partnership or
 36 foreign limited liability partnership providing legal
 37 services shall maintain a policy or policies of insurance
 38 against liability imposed on or against it by law for
 39 damages arising out of claims in an amount for each claim
 40 of at least one hundred thousand dollars (\$100,000)

1 multiplied by the number of licensed persons ~~in this state~~
2 rendering professional services on behalf of the
3 partnership; however, the total aggregate limit of the
4 policy or policies of *liability under* insurance is not
5 required to exceed seven million five hundred thousand
6 dollars (\$7,500,000) ~~per calendar year. The policy or~~
7 ~~policies may be issued on a claims made or occurrence~~
8 ~~basis. The impairment or exhaustion of the aggregate~~
9 ~~limit of liability by amounts paid under the policy in~~
10 ~~connection with the settlement, discharge, or defense of~~
11 ~~claims shall not require the partnership to acquire~~
12 ~~additional insurance coverage for the policy period to~~
13 ~~which the impairment or exhaustion applies. The policy~~
14 ~~or policies of insurance may be of a type reasonably~~
15 ~~available in the commercial insurance market and may be~~
16 ~~subject to any terms, conditions, exclusions, and~~
17 ~~endorsements as are typically contained in those policies.~~
18 ~~A policy or policies of insurance maintained pursuant to~~
19 ~~this subparagraph may be subject to a deductible or~~
20 ~~self-insured retention not to exceed 10 percent of the~~
21 ~~aggregate limit of liability specified herein. However, a~~
22 ~~deductible or self-insured retention may exceed that~~
23 ~~amount if the partnership maintains funds in the manner~~
24 ~~provided for in subparagraph (B) in the amount of the~~
25 ~~difference between the actual deductible or self-insured~~
26 ~~retention and that amount. in any one designated period,~~
27 ~~less amounts paid in defending, settling, or discharging~~
28 ~~claims as set forth in this subparagraph. The policy or~~
29 ~~policies may be issued on a claims made or occurrence~~
30 ~~basis, and shall cover (i) in the case of a claims made~~
31 ~~policy, claims initially asserted in the designated period,~~
32 ~~and (ii) in the case of an occurrence policy, occurrences~~
33 ~~during the designated period. For purposes of this~~
34 ~~subparagraph, “designated period” means a policy year~~
35 ~~or any other period designated in the policy that is not~~
36 ~~greater than 12 months. The impairment or exhaustion of~~
37 ~~the aggregate limit of liability by amounts paid under the~~
38 ~~policy in connection with the settlement, discharge, or~~
39 ~~defense of claims applicable to a designated period shall~~
40 ~~not require the partnership to acquire additional~~

1 *insurance coverage for that designated period. The policy*
2 *or policies of insurance may be in a form reasonably*
3 *available in the commercial insurance market and may be*
4 *subject to those terms, conditions, exclusions, and*
5 *endorsements that are typically contained in those*
6 *policies. A policy or policies of insurance maintained*
7 *pursuant to this subparagraph may be subject to a*
8 *deductible or self-insured retention.*

9 (B) Each registered limited liability partnership or
10 foreign limited liability partnership providing legal
11 services shall maintain in trust or bank escrow, cash, bank
12 certificates of deposit, United States Treasury obligations,
13 bank letters of credit, or bonds of insurance or surety
14 companies as security for payment of liabilities imposed
15 by law for damages arising out of all claims in an amount
16 of at least one hundred thousand dollars (\$100,000)
17 multiplied by the number of licensed persons rendering
18 professional services—~~in this state~~ on behalf of the
19 partnership; however, the maximum amount of security
20 is not required to exceed seven million five hundred
21 thousand dollars (\$7,500,000)—~~per calendar year~~. The
22 partnership remains in compliance with this section
23 *during a calendar year* notwithstanding amounts paid
24 *during that calendar year* from the accounts, funds,
25 Treasury obligations, letters of credit, or bonds—~~in any~~
26 ~~calendar year~~ in defending, settling, or discharging—~~those~~
27 ~~claims~~ *claims of the type described in this paragraph,*
28 provided that the amount of the accounts, funds,
29 Treasury obligations, letters of credit, or bonds—~~is~~
30 ~~increased to~~ was at least the amount specified in the
31 preceding sentence as of the first business day of—~~the next~~
32 *that calendar year.* Notwithstanding the pendency of
33 other claims against the partnership, a *registered* limited
34 liability partnership or foreign limited liability
35 partnership shall be deemed to be in compliance with this
36 subparagraph *as to a claim* if within 30 days after the time
37 that a claim is initially asserted through service of a
38 summons, complaint, or comparable pleading in a judicial
39 or administrative proceeding, the partnership has
40 *provided the required amount of security by designated*

1 and segregated funds in compliance with the
2 ~~requirement~~ *requirements* of this subparagraph.

3 (C) Each partner of a registered limited liability
4 partnership or foreign limited liability partnership
5 providing legal services, by virtue of that person's status
6 as a partner, thereby automatically guarantees payment
7 of the difference between the maximum amount of
8 security required for the partnership by paragraph (2) of
9 this subdivision and the security otherwise provided in
10 accordance with the provisions of subparagraphs (A) and
11 (B) of paragraph (2) of this subdivision, provided that the
12 aggregate amount paid by all partners under these
13 guarantees shall not exceed the difference. Withdrawal
14 by a partner shall not affect the rights or obligations of
15 that partner arising prior to withdrawal. Nothing
16 contained in this subparagraph shall affect or impair the
17 rights or obligations of the partners among themselves, or
18 the partnership, including, but not limited to, rights of
19 contribution, subrogation, or indemnification.

20 (b) For purposes of satisfying the security
21 requirements of this section, a registered limited liability
22 partnership or foreign limited liability partnership may
23 aggregate the security provided by it pursuant to
24 subparagraphs (A), (B), and (C) of paragraph (1) of
25 subdivision (a) or subparagraphs (A), (B), and (C) of
26 paragraph (2) of subdivision (a), as the case may be. Any
27 registered limited liability partnership or foreign limited
28 liability partnership intending to comply with the
29 alternative security provisions set forth in subparagraph
30 (C) of paragraph (1) of subdivision (a) shall furnish the
31 following information to the Secretary of State's office, in
32 the manner prescribed in, and accompanied by all
33 information required by, the applicable section:

34
35 TRANSMITTAL FORM FOR EVIDENCING COMPLIANCE
36 WITH SECTION 15052(a)(1)(C) OF THE CALIFORNIA
37 CORPORATIONS CODE
38

39 The undersigned hereby confirms the following:
40

- 1 1. _____
2 Name of registered or foreign limited liability partnership
3
- 4 2. _____
5 Jurisdiction where partnership is organized
6
- 7 3. _____
8 Address of principal office
9
- 10 4. The registered or foreign limited liability partnership renders
11 accountancy services and chooses to satisfy the requirements
12 of Section 15052 by confirming, pursuant to Sections
13 15052(a)(1)(C) and 15052(c), that, as of the most recently
14 completed fiscal year, the partnership had a net worth equal
15 to or exceeding ten million dollars (\$10,000,000).
16
- 17 5. _____
18 Title of authorized person executing this form
19
- 20 6. _____
21 Signature of authorized person executing this form
22

23 (c) Pursuant to subparagraph (C) of paragraph (1) of
24 subdivision (a), a registered limited liability partnership
25 or foreign limited liability partnership rendering
26 accountancy services may satisfy the requirements of this
27 section by confirming that, as of the last day of its most
28 recently completed fiscal year, it had a net worth equal
29 to or exceeding ten million dollars (\$10,000,000). In order
30 to comply with this alternative method of meeting the
31 requirements established in this section, a registered
32 limited liability partnership or foreign limited liability
33 partnership shall file an annual confirmation with the
34 Secretary of State's office, signed by an authorized
35 member of the registered limited liability partnership or
36 foreign limited liability partnership, accompanied by a
37 transmittal form as prescribed by subdivision (b). In
38 order to be current in a given year, the partnership form
39 for confirming compliance with the optional security
40 requirement shall be on file within four months of the



1 completion of the fiscal year and, upon being filed, shall
2 constitute full compliance with the financial security
3 requirements for purposes of this section as of the
4 beginning of the fiscal year. A confirmation filed during
5 any particular fiscal year shall continue to be effective for
6 the first four months of the next succeeding fiscal year.

7 (d) Neither the existence of the requirements of
8 subdivision (a) nor the extent of the registered limited
9 liability partnership's or foreign limited liability
10 partnership's compliance with the alternative
11 requirements in this section shall be admissible in court
12 or in any way be made known to a jury or other trier of
13 fact in determining an issue of liability for, or to the extent
14 of, the damages in question.

15 (e) Notwithstanding any other provision of this
16 section, if a registered limited liability partnership *or*
17 *foreign limited liability partnership* is otherwise in
18 compliance with the terms of this section at the time that
19 a bankruptcy or other insolvency proceeding is
20 commenced with respect to the registered limited
21 liability partnership, it shall be deemed to be in
22 compliance with this section during the pendency of the
23 proceeding. A registered limited liability partnership that
24 has been the subject of a proceeding and that conducts
25 business after the proceeding ends shall thereafter
26 comply with paragraph (1) or (2) of subdivision (a), in
27 order to obtain the limitations on liability afforded by
28 subdivision (b) of Section 15015.

29 SEC. 2. *Section 16955.5 of the Corporations Code is*
30 *repealed.*

31 ~~16955.5. A registered limited liability partnership or a~~
32 ~~partnership converting to a registered limited liability~~
33 ~~partnership may, by the vote of the partners possessing~~
34 ~~a majority of the interests of its partners in the current~~
35 ~~profits of the partnership or by a different vote as may be~~
36 ~~required in its partnership agreement, elect to be~~
37 ~~governed by the law in effect prior to adoption of this~~
38 ~~chapter or by this chapter. The election may be made~~
39 ~~from time to time and may be revoked by the vote of the~~
40 ~~partners possessing a majority of the interests of the~~

~~partners in the current profits of the partnership or by a different vote as may be required in the partnership agreement. Any election not to be governed by this chapter and any revocation of that election shall be set forth in the registration filed by the registered limited liability partnership with the Secretary of State, in an amendment to the registration filed with the Secretary of State, or in an attachment to the registration or amendment. Any such election shall terminate and be of no further force or effect on or after January 1, 1998. After that date the registered limited liability partnership shall be governed by the law as specified in subdivisions (a) and (b) of Section 16111.~~

~~This section shall remain in effect only until January 1, 1998, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 1998, deletes or extends that date.~~

SEC. 3. Section 16955.5 is added to the Corporations Code, to read:

16955.5. (a) A partnership that registered as a registered limited liability partnership prior to January 1, 1997, or a partnership that converted to a registered limited liability partnership prior to that date shall continue to be governed by the law in effect prior to the adoption of this chapter unless it elects to be governed by this chapter in the manner provided in subdivision (c).

(b) A partnership that registers as a registered limited liability partnership or a partnership that converts to a registered limited liability partnership on or after January 1, 1997, shall be governed by this chapter but may elect to be governed by the law in effect prior to adoption of this chapter in the manner provided in subdivision (c).

(c) Any election made pursuant to subdivision (a) or (b) may be made from time to time and may be revoked, in each case by the vote of the partners possessing a majority of the interests of the partners in the current profits of the partnership or by a different vote as may be required in the partnership agreement.

(d) Any election made pursuant to subdivision (c) and any revocation of that election shall be set forth in the

1 registration filed by the registered limited liability
2 partnership with the Secretary of State, in an amendment
3 to the registration filed with the Secretary of State, or in
4 an attachment to the registration or amendment. Any
5 such election shall terminate and be of no further force
6 or effect on or after January 1, 1999. After that date the
7 registered limited liability partnership shall be governed
8 by the law as specified in subdivisions (a) and (b) of
9 Section 16111.

10 (e) This section shall remain in effect only until
11 January 1, 1999, and as of that date is repealed, unless a
12 later enacted statute, that is enacted before January 1,
13 1999, deletes or extends that date.

14 SEC. 4. Section 16956 of the Corporations Code is
15 amended to read:

16 16956. (a) At the time of registration pursuant to
17 Section 16953, in the case of a registered limited liability
18 partnership, and Section 16959, in the case of a foreign
19 limited liability partnership, and at all times during which
20 those partnerships shall transact intrastate business,
21 every registered limited liability partnership and foreign
22 limited liability partnership, as the case may be, shall be
23 required to provide security for claims against it as
24 follows:

25 (1) For claims based upon acts, errors, or omissions
26 arising out of the practice of public accountancy, a
27 registered limited liability partnership or foreign limited
28 liability partnership providing accountancy services shall
29 comply with one, or pursuant to subdivision (b) some
30 combination, of the following:

31 (A) Maintaining a policy or policies of insurance
32 against liability imposed on or against it by law for
33 damages arising out of claims in an amount for each claim
34 of at least one hundred thousand dollars (\$100,000)
35 multiplied by the number of licensed persons rendering
36 professional services ~~in this state~~ on behalf of the
37 partnership; however, the total aggregate limit of liability
38 ~~of~~ under the policy or policies of insurance is not required
39 to exceed five million dollars (\$5,000,000) ~~per calendar~~
40 ~~year. The policy or policies may be issued on a claims~~

1 ~~made or occurrence basis. The impairment or exhaustion~~
2 ~~of the aggregate limit of liability by amounts paid under~~
3 ~~the policy in connection with the settlement, discharge,~~
4 ~~or defense of claims shall not require the partnership to~~
5 ~~acquire additional insurance coverage for the policy~~
6 ~~period to which the impairment or exhaustion applies.~~
7 ~~The policy or policies of insurance may be of a type~~
8 ~~reasonably available in the commercial insurance market~~
9 ~~and may be subject to any terms, conditions, exclusions,~~
10 ~~and endorsements as are typically contained in those~~
11 ~~policies. A policy or policies of insurance maintained~~
12 ~~pursuant to this subparagraph may be subject to a~~
13 ~~deductible or self-insured retention not to exceed 10~~
14 ~~percent of the aggregate limit of liability specified herein.~~
15 ~~However, a deductible or self-insured retention may~~
16 ~~exceed that amount if the partnership maintains funds in~~
17 ~~the manner provided for in subparagraph (B) in the~~
18 ~~amount of the difference between the actual deductible~~
19 ~~or self-insured retention and that amount. in any one~~
20 ~~designated period, less amounts paid in defending,~~
21 ~~settling, or discharging claims as set forth in this~~
22 ~~subparagraph. The policy or policies may be issued on a~~
23 ~~claims made or occurrence basis, and shall cover: (i) in~~
24 ~~the case of a claims made policy, claims initially asserted~~
25 ~~in the designated period, and (ii) in the case of an~~
26 ~~occurrence policy, occurrences during the designated~~
27 ~~period. For purposes of this subparagraph, “designated~~
28 ~~period” means a policy year or any other period~~
29 ~~designated in the policy that is not greater than 12~~
30 ~~months. The impairment or exhaustion of the aggregate~~
31 ~~limit of liability by amounts paid under the policy in~~
32 ~~connection with the settlement, discharge, or defense of~~
33 ~~claims applicable to a designated period shall not require~~
34 ~~the partnership to acquire additional insurance coverage~~
35 ~~for that designated period. The policy or policies of~~
36 ~~insurance may be in a form reasonably available in the~~
37 ~~commercial insurance market and may be subject to~~
38 ~~those terms, conditions, exclusions, and endorsements~~
39 ~~that are typically contained in those policies. A policy or~~
40 ~~policies of insurance maintained pursuant to this~~

1 *subparagraph may be subject to a deductible or*
2 *self-insured retention not to exceed a maximum amount*
3 *equal to 10 percent of the aggregate limit of liability*
4 *specified by this subparagraph. However, a deductible or*
5 *self-insured retention may exceed that maximum amount*
6 *if the partnership maintains funds in the manner*
7 *provided for in subparagraph (B) in the amount of the*
8 *difference between the actual deductible or self-insured*
9 *retention and that maximum amount, or otherwise*
10 *obtains a commitment of the insurer issuing the policy to*
11 *the effect that the insurer will cover the difference.*

12 (B) Maintaining in trust or bank escrow, cash, bank
13 certificates of deposit, United States Treasury obligations,
14 bank letters of credit, or bonds of insurance or surety
15 companies as security for payment of liabilities imposed
16 by law for damages arising out of all claims in an amount
17 of at least one hundred thousand dollars (\$100,000)
18 multiplied by the number of licensed persons rendering
19 professional services ~~in this state~~ on behalf of the
20 partnership; however, the maximum amount of security
21 is not required to exceed five million dollars (\$5,000,000)
22 ~~per calendar year~~. The partnership remains in
23 compliance with this section *during a calendar year*
24 notwithstanding amounts paid *during that calendar year*
25 from the accounts, funds, Treasury obligations, letters of
26 credit, or bonds ~~in any calendar year~~ in defending,
27 settling, or discharging ~~those claims~~ *claims of the type*
28 *described in this paragraph*, provided that the amount of
29 those accounts, funds, Treasury obligations, letters of
30 credit, or bonds ~~is increased to~~ was at least the amount
31 specified in the preceding sentence as of the first business
32 day of ~~the next~~ *that calendar year*. Notwithstanding the
33 pendency of other claims against the partnership, a
34 *registered* limited liability partnership or foreign limited
35 liability partnership shall be deemed to be in compliance
36 with this subparagraph *as to a claim* if within 30 days after
37 the time that a claim is initially asserted through service
38 of a summons, complaint, or comparable pleading in a
39 judicial or administrative proceeding, the partnership has
40 *provided the required amount of security by designated*

1 and segregated funds in compliance with the
2 ~~requirement~~ *requirements* of this subparagraph.

3 (C) Confirming, pursuant to the procedure in
4 subdivision (c), that, as of the most recently completed
5 fiscal year of the partnership, it had a net worth equal to
6 or exceeding ten million dollars (\$10,000,000).

7 (2) For claims based upon acts, errors, or omissions
8 arising out of the practice of law, a registered limited
9 liability partnership or foreign limited liability
10 partnership providing legal services shall comply with
11 one, or pursuant to subdivision (b) some combination, of
12 the following:

13 (A) Each registered limited liability partnership or
14 foreign limited liability partnership providing legal
15 services shall maintain a policy or policies of insurance
16 against liability imposed on or against it by law for
17 damages arising out of claims in an amount for each claim
18 of at least one hundred thousand dollars (\$100,000)
19 multiplied by the number of licensed persons ~~in this state~~
20 rendering professional services on behalf of the
21 partnership; however, the total aggregate limit of the
22 policy or policies of *liability under* insurance is not
23 required to exceed seven million five hundred thousand
24 dollars (\$7,500,000) ~~per calendar year. The policy or~~
25 ~~policies may be issued on a claims made or occurrence~~
26 ~~basis. The impairment or exhaustion of the aggregate~~
27 ~~limit of liability by amounts paid under the policy in~~
28 ~~connection with the settlement, discharge, or defense of~~
29 ~~claims shall not require the partnership to acquire~~
30 ~~additional insurance coverage for the policy period to~~
31 ~~which the impairment or exhaustion applies. The policy~~
32 ~~or policies of insurance may be of a type reasonably~~
33 ~~available in the commercial insurance market and may be~~
34 ~~subject to any terms, conditions, exclusions, and~~
35 ~~endorsements as are typically contained in those policies.~~
36 ~~A policy or policies of insurance maintained pursuant to~~
37 ~~this subparagraph may be subject to a deductible or~~
38 ~~self-insured retention not to exceed 10 percent of the~~
39 ~~aggregate limit of liability specified herein. However, a~~
40 ~~deductible or self-insured retention may exceed that~~

1 ~~amount if the partnership maintains funds in the manner~~
2 ~~provided for in subparagraph (B) in the amount of the~~
3 ~~difference between the actual deductible or self-insured~~
4 ~~retention and such amount. in any one designated period,~~
5 ~~less amounts paid in defending, settling, or discharging~~
6 ~~claims as set forth in this subparagraph. The policy or~~
7 ~~policies may be issued on a claims made or occurrence~~
8 ~~basis, and shall cover (i) in the case of a claims made~~
9 ~~policy, claims initially asserted in the designated period,~~
10 ~~and (ii) in the case of an occurrence policy, occurrences~~
11 ~~during the designated period. For purposes of this~~
12 ~~subparagraph, “designated period” means a policy year~~
13 ~~or any other period designated in the policy that is not~~
14 ~~greater than 12 months. The impairment or exhaustion of~~
15 ~~the aggregate limit of liability by amounts paid under the~~
16 ~~policy in connection with the settlement, discharge, or~~
17 ~~defense of claims applicable to a designated period shall~~
18 ~~not require the partnership to acquire additional~~
19 ~~insurance coverage for that designated period. The policy~~
20 ~~or policies of insurance may be in a form reasonably~~
21 ~~available in the commercial insurance market and may be~~
22 ~~subject to those terms, conditions, exclusions, and~~
23 ~~endorsements that are typically contained in those~~
24 ~~policies. A policy or policies of insurance maintained~~
25 ~~pursuant to this subparagraph may be subject to a~~
26 ~~deductible or self-insured retention.~~

27 (B) Each registered limited liability partnership or
28 foreign limited liability partnership providing legal
29 services shall maintain in trust or bank escrow, cash, bank
30 certificates of deposit, United States Treasury obligations,
31 bank letters of credit, or bonds of insurance or surety
32 companies as security for payment of liabilities imposed
33 by law for damages arising out of all claims in an amount
34 of at least one hundred thousand dollars (\$100,000)
35 multiplied by the number of licensed persons rendering
36 professional services—~~in this state~~ on behalf of the
37 partnership; however, the maximum amount of security
38 is not required to exceed seven million five hundred
39 thousand dollars (\$7,500,000)—~~per calendar year~~. The
40 partnership remains in compliance with this section

1 *during a calendar year* notwithstanding amounts paid
2 *during that calendar year* from the accounts, funds,
3 Treasury obligations, letters of credit, or bonds ~~in any~~
4 ~~calendar year~~ in defending, settling, or discharging ~~those~~
5 ~~claims~~ *claims of the type described in this paragraph*,
6 provided that the amount of those accounts, funds,
7 Treasury obligations, letters of credit, or bonds ~~is~~
8 ~~increased to~~ *was* at least the amount specified in the
9 preceding sentence as of the first business day of ~~the next~~
10 *that* calendar year. Notwithstanding the pendency of
11 other claims against the partnership, a *registered* limited
12 liability partnership or foreign limited liability
13 partnership shall be deemed to be in compliance with this
14 subparagraph *as to a claim* if within 30 days after the time
15 that a claim is initially asserted through service of a
16 summons, complaint, or comparable pleading in a judicial
17 or administrative proceeding, the partnership has
18 *provided the required amount of security by* designated
19 and segregated funds in compliance with the
20 requirement of this subparagraph.

21 (C) Each partner of a registered limited liability
22 partnership or foreign limited liability partnership
23 providing legal services, by virtue of that person's status
24 as a partner, thereby automatically guarantees payment
25 of the difference between the maximum amount of
26 security required for the partnership by paragraph (2) of
27 this subdivision and the security otherwise provided in
28 accordance with the provisions of subparagraphs (A) and
29 (B) of paragraph (2) of this subdivision, provided that the
30 aggregate amount paid by all partners under these
31 guarantees shall not exceed the difference. Withdrawal
32 by a partner shall not affect the rights or obligations of
33 that partner arising prior to withdrawal. Nothing
34 contained in this subparagraph shall affect or impair the
35 rights or obligations of the partners among themselves, or
36 the partnership, including, but not limited to, rights of
37 contribution, subrogation, or indemnification.

38 (b) For purposes of satisfying the security
39 requirements of this section, a registered limited liability
40 partnership or foreign limited liability partnership may

1 aggregate the security provided by it pursuant to
2 subparagraphs (A), (B), and (C) of paragraph (1) of
3 subdivision (a) or subparagraphs (A), (B), and (C) of
4 paragraph (2) of subdivision (a), as the case may be. Any
5 registered limited liability partnership or foreign limited
6 liability partnership intending to comply with the
7 alternative security provisions set forth in subparagraph
8 (C) of paragraph (1) of subdivision (a) shall furnish the
9 following information to the Secretary of State's office, in
10 the manner prescribed in, and accompanied by all
11 information required by, the applicable section:

12
13 TRANSMITTAL FORM FOR EVIDENCING COMPLIANCE
14 WITH SECTION 16956(a)(1)(C) OF THE CALIFORNIA
15 CORPORATIONS CODE
16

17 The undersigned hereby confirms the following:

- 18
19 1. _____
20 Name of registered or foreign limited liability partnership
21
22 2. _____
23 Jurisdiction where partnership is organized
24
25 3. _____
26 Address of principal office
27
28 4. The registered or foreign limited liability partnership renders
29 accountancy services and chooses to satisfy the requirements
30 of Section 16956 by confirming, pursuant to Sections
31 16956(a)(1)(C) and 16956(c), that, as of the most recently
32 completed fiscal year, the partnership had a net worth equal
33 to or exceeding ten million dollars (\$10,000,000).
34



5. _____
Title of authorized person executing this form

6. _____
Signature of authorized person executing this form

(c) Pursuant to subparagraph (C) of paragraph (1) of subdivision (a), a registered limited liability partnership or foreign limited liability partnership rendering accountancy services may satisfy the requirements of this section by confirming that, as of the last day of its most recently completed fiscal year, it had a net worth equal to or exceeding ten million dollars (\$10,000,000). In order to comply with this alternative method of meeting the requirements established in this section, a registered limited liability partnership or foreign limited liability partnership shall file an annual confirmation with the Secretary of State's office, signed by an authorized member of the registered limited liability partnership or foreign limited liability partnership, accompanied by a transmittal form as prescribed by subdivision (b). In order to be current in a given year, the partnership form for confirming compliance with the optional security requirement shall be on file within four months of the completion of the fiscal year and, upon being filed, shall constitute full compliance with the financial security requirements for purposes of this section as of the beginning of the fiscal year. A confirmation filed during any particular fiscal year shall continue to be effective for the first four months of the next succeeding fiscal year.

(d) Neither the existence of the requirements of subdivision (a) nor the extent of the registered limited liability partnership's or foreign limited liability partnership's compliance with the alternative requirements in this section shall be admissible in court or in any way be made known to a jury or other trier of fact in determining an issue of liability for, or to the extent of, the damages in question.

(e) Notwithstanding any other provision of this section, if a registered limited liability partnership *or*

1 *foreign limited liability partnership* is otherwise in
2 compliance with the terms of this section at the time that
3 a bankruptcy or other insolvency proceeding is
4 commenced with respect to the registered limited
5 liability partnership, it shall be deemed to be in
6 compliance with this section during the pendency of the
7 proceeding. A registered limited liability partnership that
8 has been the subject of a proceeding and that conducts
9 business after the proceeding ends shall thereafter
10 comply with paragraph (1) or (2) of subdivision (a), in
11 order to obtain the limitations on liability afforded by
12 subdivision (c) of Section 16306.

